

***Relations Between China and Latin America/the Western Hemisphere***

STATEMENT BY:

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Mr. Chairman and Members of the Subcommittee:

I am honored to appear before you today to discuss the current state of play in the Chinese–Western Hemisphere relationship. I have followed the politics and foreign policies of the countries in the Western Hemisphere for more than forty years. China’s interest in the region is not new, but it has increased significantly in the last few years, and the same holds true in the other direction.

Three aspects of China’s emergence as a key player in international affairs in general and in the Western Hemisphere in particular stand out. First, one must look at China in the broad strategic and global context. Second, the Western Hemisphere is not likely to become a major focus of Chinese diplomacy. China has demonstrated a strong desire for countries in the hemisphere to support a “one China” policy and shift diplomatic recognition from Taiwan to Beijing as the legitimate representative of China in international affairs. But China’s interest in the region is driven primarily by its rapid economic growth and its rising need for natural resources and foodstuffs. And third, for the major Latin American states, China has become an important partner in several areas, including closer trade and investment ties and collaboration in devising a new trade strategy in the context of the “Doha” Round of the World Trade Organization (WTO). The following analysis focuses on China’s emergence in international affairs in the strategic context, China’s growing presence in the Western Hemisphere, the China–Venezuela connection, and, finally, the Taiwan issue.

### **The Strategic Context**

China is emerging as a key player in world politics and the United States is the natural interlocutor with Beijing. Of common concern are the political and security dynamics in Asia. The ASEAN Regional Forum (ARF) and the ASEAN +3 and ASEAN +1 processes are positive and needed steps in security policy. The Shanghai Cooperation Organization (SCO)—that now includes China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan—is relatively new but a good sign of China’s commitment to

multilateralism and regional security. These initiatives complement the interests of the United States in the region and should be seen as being very constructive.

The critical issue of the North Korean nuclear crisis and the six-party talks is another example of where the interests of Washington and Beijing overlap. To resolve or clarify the situation in Pyongyang is of the highest priority for the United States. China's good will and diplomatic skills are key in the ongoing process of addressing a possible nuclear threat from the North Korean regime.

A point of strong divergence between China and the United States is the U.S. presence in Iraq. Although China has demonstrated its commitment to opposing terrorism and has provided significant support to U.S. policy in Afghanistan—including sharing intelligence on and freezing assets of terrorist groups—its leadership has been skeptical and disapproving of the U.S. invasion of Iraq. More broadly, Beijing is clearly concerned over the large U.S. military presence in Central Asia and the overseas deployment of Japanese Self Defense Forces. But differences of opinion in these areas are not relevant to China's expanding role in the Western Hemisphere.

The political situation in Taiwan—the “one China” concept—remains central to Chinese foreign policy. Recent political turmoil in South Korea is on Beijing's radar screen as well. All of these foreign policy issues require mutual respect and coordination between Washington and Beijing. The emergence of China as a key player in Asia should come as no surprise to any of us. Deepening the bilateral relationship to permit policy initiatives that are complementary is of the highest priority for the United States in this century.

This is a very brief overview of the U.S.-Chinese security and diplomatic relationship. By most standards, the United States has a constructive and productive relationship with Beijing. For the last seven administrations since Richard Nixon, U.S. policy regarding China has been to encourage it to integrate into the western-oriented economic and diplomatic system. As we turn to China's presence in the Western Hemisphere, it is critical that we consider this global context and remember that China's emerging presence in the hemisphere is a natural evolution of that U.S. policy approach.

## **China and the Western Hemisphere**

Is it in China's long-range interest to appear to threaten or challenge the United States in its own hemisphere? Absolutely not. Will China's presence offer benefits to our neighbors that the United States has been unable to offer? A very positive yes. China's surplus permits it to provide investment opportunities that the United States is not able to offer given our deficit situation. The United States should view the increased involvement of China in the hemisphere as an opportunity to provide needed support for infrastructure, positive trade balances, and new markets for the countries in the region.

The Western Hemisphere has not been—and will not be—the major focus of Chinese diplomacy. Relations with the United States and the European Union, Asian regional security issues, and terrorism are of higher priority and will remain so for the foreseeable future. The Chinese approach to the region is driven by its rapidly rising need for foodstuffs and natural resources created by its extraordinary rates of growth, in addition to its constant diplomatic offensive to “quarantine” Taiwan. The latter goal has been largely achieved; the former strategy is underway.

The numbers with regard to Chinese growth are staggering. China is now the world's third largest trading economy, following the United States and Germany. It is the sixth largest economy in the world and within a relatively short period of time will overtake the United Kingdom and France to place fourth. As recently as 2003, China alone accounted for one-fifth of global trade expansion. It is this extraordinary economic performance that has led Beijing to focus on the hemisphere.

The red flag went up with the April 2001 visit to Chile, Argentina, Brazil, Venezuela, and Cuba of then PRC president Jiang Zemin. A number of visits to China by senior officials in those countries followed. President Luis Inacio da Silva—“Lula”—led a large delegation of private businessmen and government functionaries to China in May 2004. Lula has consistently made it clear that Brazil seeks a strategic relationship with Beijing. President Nestor Kirchner of Argentina and President Hugo Chavez of Venezuela also visited China in 2004.

The “fourth generation” of Chinese leadership indicated their collective interest in the hemisphere with the visit of President Hu Jintao to the region in November 2004. In

addition to participating in the Asian–Pacific Economic Cooperation (APEC) Forum in Santiago de Chile, Hu Jintao and his colleagues made state visits to Argentina and Brazil and also visited Cuba. Expectations were high prior to the arrival of the Chinese delegation, and with good reason. Just in 2004, China’s trade with Latin America grew by 50 percent and nearly half of China’s direct investment overseas went to Latin America (about \$18.5 billion), according to figures by the Chinese Ministry of Commerce. An important policy decision taken by Argentina and Brazil during the delegation’s visits was to grant China “market economy” status, a move that Beijing has been lobbying for with its major trade partners since China joined the WTO as a non-market economy in 2001 (Chile and Peru have also taken that decision). Also during this trip, the presidents of Argentina and China decided to establish and develop a strategic partnership; in Brazil, the two presidents agreed to deepen the strategic partnership that already exists between their countries.

A visit to Latin America in early 2005 by Vice President Zeng Qinghong followed that of President Hu Jintao. The Vice President visited Mexico, Venezuela, Peru, Trinidad and Tobago, and Jamaica. During the Zeng visit, China and the five Latin American countries signed about fifty cooperation agreements on energy, economic cooperation, transport, telecommunications, and other fields. The Vice President also attended the first ministerial meeting of the China–Caribbean Economic and Trade Cooperation Forum held in Jamaica. The Forum was initiated by China in 2004.

One of the principal drivers of China’s presence in the region is, and will remain, energy. Again, this must be seen in a global context. Take, for example, Africa. China has been aggressively forging ties with most of Africa’s 54 countries. Energy resources are of paramount concern. But given the leveling off of U.S. influence in the region, China has identified a vacuum for broad and deep economic, political, and military ties with the continent. In more than a dozen African countries, Chinese firms are searching for oil and gas. In 2004, China spent almost \$10 billion on African oil, accounting for nearly one-third of its total crude imports.

In East Asia, China and Japan are locked in a diplomatic and resource dispute over oil and gas reserves in the East China Sea. China continues to search for oil and gas in what Japan terms its exclusive economic zone. China has invested \$1 billion in a

project to pump its first gas in August 2005, sending the fuel through a 300-mile pipeline to Shanghai. The government recently announced that over the next 18 months Russian oil exports to China by rail would increase by 50 percent to 300,000 barrels a day. China expects to receive priority status when Russia completes the Siberian oil-gas pipeline.

In the Western Hemisphere, a number of initiatives are underway. Brazil's state oil company, Petrobras, and China's National Offshore Oil Company are studying the viability of joint operations in refining, pipelines, and exploration in their two countries and in other parts of the world. A one billion dollar agreement has been signed with another Chinese company, Sinopec, to build a gas pipeline across Brazil.

In Bolivia, the Shengli International Petroleum Development Company has opened an office in the gas-rich eastern region and has announced plans to invest up to \$1.5 billion, once the status of the pending hydrocarbons law has been clarified. The China National Petroleum Company and Sinopec are looking at oil blocs in Ecuador as possible investment opportunities. A subsidiary of the China National Petroleum Company now produces oil in Peru and in January 2005 a memorandum of understanding was signed that could lead to more exploratory agreements. In Colombia, the state oil company has been discussing exploration and production.

China's other interests are in Bolivia's tin deposits, Chile's copper (China has now displaced the United States as the leading market for Chilean exports), and iron ore, zinc, and bauxite in Brazil. Foodstuffs, principally Argentine and Brazilian soybeans, are a high priority. (Venezuela is discussed separately in the next section.)

As part of its need for these exports from the region, China is willing to invest heavily in the infrastructure that is required to move the goods in an efficient and rapid fashion to convenient port facilities. One of the key bottlenecks in the hemisphere is poor infrastructure, and Chinese investment will be a positive development for many of the countries in the region.

### **China and Venezuela**

One of China's most active bilateral relationships in the Western Hemisphere is with Venezuela. During Vice President Zeng's visit in January 2005, the two countries signed

nineteen cooperation accords, including a long-term arrangement for a Chinese stake in Venezuela's oil and gas fields. Officials of the two countries have also discussed cooperative development of untapped energy reserves in Peru, Bolivia, and Colombia. China already operates two oil fields in Venezuela and is now set to develop fifteen additional fields in the eastern section of the country, as well as possibly participating in the joint exploration of the Orinoco belt, the world's largest deposit of crude oil. Memorandums of Understanding were signed on the peaceful utilization of outer space, on ocean shipping, and agricultural development. During President Hugo Chavez's visit to China in December 2004 (his third visit), he signed agreements that aim at increasing Chinese investment in Venezuela's oil and gas resources. The accords also involve the construction of a railroad in eastern Venezuela and the purchase of a satellite to improve telecommunications in the country.

President Chavez has made no secret of his goal to diversify Venezuela's petroleum exports to favor Asia generally, and China in particular. It is important that the Congress understand that China's interest in Venezuela is primarily energy driven. There are, of course, similarities in the political discourse of the two states—rhetoric that is a reflection of another time and ideological confrontation. In the context of the broader geopolitical framework I discussed earlier in this testimony, China is pursuing commercial and investment goals in Venezuela that serve its development interests.

Will China risk a rupture in its strategic relationship with the United States over its links to Venezuela? Nothing is impossible in international relations, of course. But given the newly prudent, multilateral approach that China has taken to its role in the world, it is unlikely. The problem is not China, but Venezuela. The United States needs to assess current policy and seek new directions in its approach to the Chavez regime. The most fruitful, I believe, is to use multilateral diplomacy in U.S. efforts to "contain" the regime in Caracas. The good offices of the Brazilians and other Latin American states would be welcome. The European Union, and in particular Spain, should be consulted with regard to overall policy initiatives that might be employed to reduce the level of mistrust between Washington and Caracas. Increased confrontation will yield little in the way of positive results. A multilateral agenda can do no harm and may provide "cover" for both the United States and Venezuela to reduce the stridency of the

current dialogue. Similarly, the need for multilateral cooperation echoes loudly in the Taiwan situation.

### **The Taiwan Issue**

The United States has a long-standing strategic interest in the independence of Taiwan. That, too, must be viewed in the framework of the broader geopolitical relationship between China and the United States. In her first visit to China, Secretary of State Condoleezza Rice met with Premier Wen Jiabao. Wen stated that the overall China-U.S. relationship is sound and that bilateral cooperation in all fields remains fruitful. The Secretary noted that her visit to China shortly after she took office demonstrates the great importance the United States attaches to furthering U.S.-China relations in a constructive and cooperative manner. Secretary Rice stated that the United States adheres to the “one China” policy, abides by the three China-U.S. joint communiqués, and wishes to see the peaceful solution to the Taiwan question. This same position was affirmed by Secretary Rice in an earlier meeting with Foreign Minister Li Zhaoxing, when Li pointed out that the Taiwan issue is the biggest challenge to China-U.S. relations.

Latin America’s role in this dispute is nonexistent. But to the degree that a large number of states in the region have withdrawn recognition of Taiwan to recognize the Beijing regime, it is a regional diplomatic breakthrough for China. However, this is a policy initiative that has been underway for a number of years and has little significance beyond the diplomatic game that it is.

### **Conclusion**

Given the rapid expansion of trade, commercial, and investment ties between the countries of the region and China, it is important to understand Beijing’s motivations. The Chinese regime is engaged in a prolonged commitment to Latin America. The principal and overriding goal is access to the rich reserves of foodstuffs, minerals, and energy resources. That goal will, in turn, require extensive investment in infrastructure, which is desperately needed to make Latin America more competitive and better



integrated into the global trading system. To the degree that China's involvement in the region helps to stabilize economic growth trends by producing large trade surpluses, the United States should not view this as a threat in any way. The prosperity of the region is in the national interest of the United States. Given the absence of a "grand plan" for the region in Washington, DC, China's involvement should be viewed in the broader geopolitical framework that I have discussed previously.

It is important that the United States understand that there are growing global affinities between China and Latin America, such as their participation in the Group of Twenty that was organized for the WTO meeting in Cancun in 2003. China will have an interest in the expansion of the United Nations Security Council, and one of those seats will go to a Latin American state, most probably Brazil. The China-Brazil relationship is among the most important in the region and should be seen as, again, positive for the overall development of the hemisphere.

The world has been jolted by the rapid expansion of China in many areas of the world, in particular Africa and Latin America. Given Chinese growth and the absence of strategic natural resources, it was inevitable that Beijing would undertake a carefully planned policy of acquiring secure supplies of natural resources and commodities. This is good for Latin America, and should be seen by the Congress as complementary to the dynamic bilateral relationship between the United States and China. At this time, there is no evidence that China's interests in Latin America are other than diplomatic—Taiwan—and economic—focused on access to the extraordinary wealth of the countries in the region that has been under-exploited for many decades due to a lack of proper infrastructure. A counter plan by the United States in the region would be most welcome. That is a political decision that must be taken by the White House and Congress. I would urgently support such a development, but the likelihood remains small given the realities on the ground today in Washington, DC.